GOVERNMENT OF INDIA
FINANCE AND COMPANY AFFAIRS
LOK SABHA

UNSTARRED QUESTION NO:618
ANSWERED ON:21.02.2003
INTEREST RATES ON STATE LOANS
MAHBOOB ZAHEDI

Will the Minister of FINANCE AND COMPANY AFFAIRS be pleased to state:

(a) whether the Union Government have been gradually reducing interest rates in small saving schemes, which in turn affects the States to go in for crisis in investment towards developmental projects;

(b) if so, whether the State Governments have been suffering on account of huge loans burden of interest and wage bills; and

(c) if so, the corrective measures taken or likely to be taken in this regard ?

Answer

MINISTER OF STATE IN THE MINISTRY OF FINANCE AND COMPANY AFFAIRS (SHRI ANANDRAO V. ADSUL)

(a) to c) In the recent years, Government has reviewed and reset the interest rates on various small savings schemes in order to align them with the overall interest rate structure in the economy. The last such reset through a downward revision of 50 basis points in the interest rates of most small savings schemes was done on the basis of recommendations of an Expert Committee to make administered interest rates market determined by benchmarking them to the average annual yield on government securities of comparable maturity.

Collections under small savings schemes have, however, continued to grow inspite of revision of the interest rates. Further, pursuant to the recommendation of the Expert Committee ibid, the States` share of net small savings collections has been enhanced from 80% to 100% with effect from 1st April, 2002. Hence, funds available to the States on account of their share of net small savings collections have increased over the years.

The benefit of reduction of interest rates on small savings schemes has been passed on to the State Governments by simultaneous reduction of the interest rate on the special securities issued by them against their share of net small savings collections. In addition,the State Governments have been enabled to prepay their past high cost loans by utilising their incremental share of net small savings collections and current market borrowings on lower interest rates in order to bring down their interest liabilities.